

CITY OF MARINE CITY
St. Clair County, Michigan
AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF MARINE CITY	County ST CLAIR
Audit Date 6/30/05	Opinion Date 10/20/05	Date Accountant Report Submitted to State: 11/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

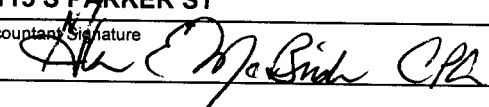
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) MCBRIDE, MANLEY & MILLER PC			
Street Address 1115 S PARKER ST		City MARINE CITY	State MI
Accountant Signature 		ZIP 48039	Date 11/14/05

CITY OF MARINE CITY

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CITY OF MARINE CITY

Management's Discussion and Analysis

June 30, 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City combined net assets increased 1.9% from a year ago from \$8.196 million to \$8.348 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase, of approximately \$568,000 during the year (100% increase). This was the result of increases in Debt Service Fund Net Assets and Major & Local Street Net Assets. The business-type activities experienced a \$416,000 decrease in net assets, primarily as a result of depreciation of \$517,000. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current Assets	\$ 2,631	\$ 2,550	\$ 1,059	\$ 693	\$ 3,665	\$ 3,207
Noncurrent Assets	2,810	2,879	9,053	8,867	11,863	11,745
Total Assets	5,441	5,429	10,112	9,560	15,528	14,952
Long-Term Debt Outstanding	4,638	4,043	1,350	1,285	5,988	5,328
Other Liabilities	929	944	440	369	1,344	1,276
Total Liabilities	5,567	4,987	1,790	1,654	7,332	6,604
Net Assets						
Invested in Capital Assets - Net of Debt	(2,326)	(1,708)	7,654	7,527	5,328	5,819
Restricted	52	46	654	14	706	60
Unrestricted	2,148	2,104	14	365	2,162	2,469
Total Net Assets	\$ (126)	\$ 442	\$ 8,322	\$ 7,906	\$ 8,196	\$ 8,348

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, decreased by \$44,000 for the governmental activities. This represents a decrease of approximately 2%. The current level of unrestricted net assets for our governmental activities stands at \$2.104 million, or about 62% of expenditures. This is within the targeted range set by the City during its last budget process.

CITY OF MARINE CITY

Management's Discussion and Analysis

June 30, 2005

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Program Revenues						
Charges for Services	\$ 796	\$ 795	\$ 1,426	\$ 1,229	\$ 2,222	\$ 2,024
Operating Grants and Contributions	426	376	--	--	426	376
General Revenues						
Property Taxes	2,025	2,123	--	--	2,025	2,123
State-Shared Revenues	540	516	--	--	540	516
Unrestricted Investment Earnings	46	70	6	9	52	79
Other	84	99	--	65	84	164
Total Revenues	3,917	3,979	1,432	1,303	5,349	5,282
Program Expenses						
Legislative	13	12	--	--	13	12
General Government	592	568	--	--	592	568
Public Safety	1,248	1,378	--	--	1,248	1,378
Highways and Streets	125	127	--	--	125	127
Public Works	691	734	--	--	691	734
Recreation and Cultural	174	188	--	--	174	188
Other	213	279	--	--	213	279
Debt Service	139	125	--	--	139	125
Water and Sewer	--	--	1,696	1,719	1,696	1,719
Total Expenses	3,195	3,411	1,696	1,719	4,891	5,130
Change in Net Assets	\$ 722	\$ 568	\$ (264)	\$ (416)	\$ 458	\$ 152

Included in governmental activities revenues and business-type activities expenses is a transfer of approximately \$54,000 between these activities.

The City's net assets continue to remain healthy. Net assets grew by \$151,827. This was primarily because of increases in Net Assets of Governmental Activities.

Governmental Activities

The City's total governmental revenues increased by approximately \$62,000, primarily due to an increase in property tax revenues. Expenses of the governmental activities increased by \$216,000 over those of the previous year primarily due to increased cost for pension contributions and retiree's health care.

CITY OF MARINE CITY

Management's Discussion and Analysis

June 30, 2005

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water and sewer treatment to all City residents. We experienced an increase in our net operating loss. This was primarily due to a decrease in user fee revenues in the amount of approximately \$197,000.

The City's Funds

Our analysis of the City's major funds begins on page 5, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds include the General Fund, the Major & Local Street Funds, and the 1991 Unlimited Bond Series A Debt Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1,268,000. These two services are supported by general tax revenues of the City and State Revenue Sharing. In addition, the General Fund expended approximately \$816,000 on Public Works. These two areas represent approximately 64% of the General Fund's total expenditures.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The total budgeted expenditures for the General Fund were increased by approximately 8% during the year. The City's departments overall stayed within the budget, resulting in total expenditures \$317,852 below the budget. This allowed the General Fund's fund balance to increase from \$471,784 a year ago to \$544,153 at June 30, 2005.

Capital Asset and Debt Administration

At the end of June 30, 2005, the City had \$11,745,039 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in streets. Streets constructed prior to July 1, 2003, are not reported on the City's financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for the year ending June 30, 2006, calls for a slight increase in property tax rates from 16.9181 to 17.0234 mills. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

CITY OF MARINE CITY

Management's Discussion and Analysis

June 30, 2005

The building at 300 Broadway, that the City Administrative offices and Police Department operate from, has been vacated due to structural problems. Therefore, the City officials and the City taxpayers must make a decision as to the future of this building and permanent location of these offices.

The fiscal year beginning in July, 2005 will be the last year for the debt levy for the Series B Bonds that were issued in 1991. This will result in a reduction of .28 mills in the City's required debt levy for the year ending June 30, 2007. In addition, the General Obligation Public Improvement Bonds that were issued in 1987 will retire the following year, resulting in an additional reduction of approximately .77 mills.

Water usage rates have been increased by the rate of inflation for the year ending June 30, 2006. In the upcoming fiscal year, the City is installing a backwash detention tank at the Marine City Water Treatment Plant, plus other plant improvements. In order to fund this project, the City is issuing Limited General Obligation Water Bonds in the amount of \$2,500,000.

Due to the State of Michigan's budget problems, the City of Marine City is concerned about State Revenue Sharing funds. In addition, the City's fringe benefit costs have increased due to an increase in the multiplier for pension benefits. The City's contribution rate increased to 10.90% for fiscal year 7/1/05 - 6/30/06. Lastly, the City is now responsible to set aside funds for retiree's health care cost that resulted from an Act 312 arbitration award a few years ago. The City has approved to set aside 4.1% of the City's full-time active employees payroll for fiscal year 7/1/05 - 6/30/06 for this purpose. The City's actuary has determined the appropriate funding level for this obligation to be approximately 15%.

Contacting the City Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Treasurer's office.



**McBride, Manley
& Müller P.C.**

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

October 20, 2005

Honorable Mayor and City Commission
City of Marine City
300 Broadway
Marine City, Michigan 48039

Honorable Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marine City, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marine City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marine City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i through iv are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Marine City's basic financial statements. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

McBride, Manley & Miller

McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants



CITY OF MARINE CITY
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	T.I.F.A. # 1	T.I.F.A. # 2	T.I.F.A. #3
ASSETS						
Current Assets						
Cash - checking and on hand	\$ 2,245,163	\$ 268,973	\$ 2,514,136	\$ 229,025	\$ 362,774	\$ 893,654
- savings and cash equivalent investments	15,284	64,182	79,466	-	-	-
Accounts and assessments receivable	4,426	360,083	364,509	-	-	-
Taxes receivable (net of allowance of \$58,073)	58,073	-	58,073	-	-	-
Due from other units of government	123,429	-	123,429	-	-	-
Internal balances*	36,500	-	-	-	-	-
Accrued revenue	66,320	-	66,320	-	-	-
Other assets	1,175	-	1,175	-	-	-
Total Current Assets	2,550,370	693,238	3,207,108	229,025	362,774	893,654
Other Assets						
Capital assets, net of accumulated depreciation	2,878,506	8,866,533	11,745,039	-	10,698	-
TOTAL ASSETS	\$ 5,428,876	\$ 9,559,771	\$ 14,952,147	\$ 229,025	\$ 373,472	\$ 893,654
LIABILITIES						
Current Liabilities						
Accounts payable	\$ 125,791	\$ 65,356	\$ 191,147	\$ 115	\$ 37,804	\$ 187
Due to agency	-	1,197	1,197	-	-	-
Due to pension	300	-	300	-	-	-
Internal balances*	-	36,500	-	-	-	-
Accrued wages and vacation pay	154,882	205,220	360,102	-	-	-
Accrued interest payable	27,423	5,406	32,829	10,542	-	-
Current portion of bonds	623,303	55,000	678,303	20,000	-	-
Due to other units and taxpayers	12,213	-	12,213	-	-	-
Total Current Liabilities	943,912	368,679	1,276,091	30,657	37,804	187
Noncurrent Liabilities						
Accrued sick pay	79,568	-	79,568	-	-	-
Long-term obligations net of current portion	3,963,362	1,285,000	5,248,362	335,000	-	-
TOTAL LIABILITIES	\$ 4,986,842	\$ 1,653,679	\$ 6,604,021	\$ 365,657	\$ 37,804	\$ 187
NET ASSETS						
Investment in capital assets, net of related debt	\$ (1,708,159)	\$ 7,526,533	\$ 5,818,374	\$ -	\$ -	\$ -
Restricted	46,576	14,266	60,842	-	-	-
Unrestricted	2,103,617	365,293	2,468,910	(136,632)	335,668	893,467
TOTAL NET ASSETS	\$ 442,034	\$ 7,906,092	\$ 8,348,126	\$ (136,632)	\$ 335,668	\$ 893,467

* amounts have been offset in total column

See accompanying notes.

CITY OF MARINE CITY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

	Net (Expense) Revenue								
	Program Revenues			Component Units					
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	T.I.F.A. # 1	T.I.F.A. # 2	T.I.F.A. # 3
PRIMARY GOVERNMENT									
Governmental Activities									
Legislative	\$ 11,502	\$ --	\$ --	\$ --	\$ (11,502)	\$ --	\$ (11,502)		
General government	568,361	66,194	72,771	--	(429,396)	--	(429,396)		
Public safety	1,377,828	164,170	7,480	--	(1,206,178)	--	(1,206,178)		
Highways and streets	127,354	--	295,721	--	168,367	--	168,367		
Public works	733,500	202,470	--	--	(531,030)	--	(531,030)		
Recreation and cultural	187,879	46,694	--	--	(141,185)	--	(141,185)		
Other	278,601	45,852	--	--	(232,749)	--	(232,749)		
Debt service interest	124,593	269,510	--	--	144,917	--	144,917		
Total Governmental Activities	3,409,618	794,890	375,972	--	(2,238,756)	--	(2,238,756)		
Business-type Activities									
Water and sewer	1,718,987	1,229,479	--	--	--	(489,508)	(489,508)		
Total Business-type Activities	1,718,987	1,229,479	--	--	--	(489,508)	(489,508)		
TOTAL PRIMARY GOVERNMENT	\$ 5,128,605	\$ 2,024,369	\$ 375,972	\$ --	\$ (2,238,756)	\$ (489,508)	\$ (2,728,264)		
COMPONENT UNITS									
TIFA # 1	\$ 31,325	\$ --	\$ --	\$ --	--	--	\$ (31,325)	\$ --	\$ --
TIFA #2	69,149	--	--	--	--	--	--	(69,149)	--
TIFA #3	104,894	--	--	--	--	--	--	--	(104,894)
TOTAL COMPONENT UNIT	\$ 205,368	\$ --	\$ --	\$ --	--	--	(31,325)	(69,149)	(104,894)
GENERAL PURPOSE REVENUES									
Property taxes					2,122,532	--	57,623	95,782	274,047
Slate shared revenues					515,882	--	--	--	--
Investment earnings					69,668	8,657	4,105	6,424	15,243
Other					44,549	--	--	--	--
Transfers					54,215	64,588	--	--	--
TOTAL GENERAL PURPOSE REVENUES AND TRANSFERS					2,806,846	73,245	61,728	102,206	289,290
CHANGE IN NET ASSETS									
Net Assets at July 1, 2004					568,090	(416,263)	30,403	33,057	184,396
					(126,056)	8,322,355	(167,035)	302,611	709,071
NET ASSETS AT JUNE 30, 2005					\$ 442,034	\$ 7,906,092	\$ (136,632)	\$ 335,668	\$ 893,467

See accompanying notes.

CITY OF MARINE CITY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

	General	Major Street Fund	Local Street Fund	1991 Unlimited Bonds Series A Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash - checking and on hand	\$ 594,936	\$ 539,645	\$ 337,113	\$ 9,933	\$ 762,768	\$ 2,244,395
- savings and cash equivalent investments	15,284	-	-	-	-	15,284
Accounts and assessments receivable	4,426	-	-	-	-	4,426
Due from other funds	111,509	20,244	20,469	12,850	18,637	183,709
Due from other units of government	75,177	35,605	12,647	-	-	123,429
Other assets	1,175	-	-	-	-	1,175
TOTAL ASSETS	\$ 802,507	\$ 595,494	\$ 370,229	\$ 22,783	\$ 781,405	\$ 2,572,418
LIABILITIES						
Accounts payable	\$ 111,479	\$ 12,233	\$ 943	\$ -	\$ 1,136	\$ 125,791
Due to other funds	300	25,730	3,749	-	816	30,595
Accrued wages	33,006	1,654	921	-	591	36,172
Due to other units and taxpayers	12,213	-	-	-	-	12,213
Deferred revenue	101,356	4,504	-	10,476	7,822	124,158
TOTAL LIABILITIES	258,354	44,121	5,613	10,476	10,365	328,929
FUND EQUITY						
Reserved	-	-	-	12,307	69,269	81,576
Unreserved, undesignated	544,153	551,373	364,616	-	701,771	2,161,913
TOTAL FUND EQUITY	544,153	551,373	364,616	12,307	771,040	2,243,489
TOTAL LIABILITIES AND FUND EQUITY	\$ 802,507	\$ 595,494	\$ 370,229	\$ 22,783	\$ 781,405	\$ 2,572,418

See accompanying notes.

CITY OF MARINE CITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

June 30, 2005

Total Fund Balance - Governmental Funds \$ 2,243,489

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in the governmental funds.

Cost of capital assets	\$ 6,685,566	
Less: accumulated depreciation	(3,807,060)	
<i>Net Capital Assets</i>		2,878,506

Delinquent personal property taxes receivable and accrued fire revenues receivable were not available soon enough after year end to pay the current period expenditures, and therefore, are deferred in the governmental funds. 132,405

Long-term liabilities, including loans payable, are not due in the current period, and therefore, are not reported as liabilities in the governmental funds.

Loans payable	\$ 4,586,665	
Accrued interest on loans	27,423	
Compensated absences	198,278	
<i>Total Long-Term Liabilities</i>		(4,812,366)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ **442,034**



CITY OF MARINE CITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended June 30, 2005

	General	Major Street Fund	Local Street Fund	1991 Unlimited Bonds Series A Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Tax collections	\$ 1,832,101	\$ -	\$ -	\$ -	\$ 150,706	\$ 2,123,455
Distributions from State of Michigan	515,882	213,037	78,180	140,648	-	807,099
Licenses, permits, fines, and fees	57,860	-	-	146,726	-	204,586
Fire protection fees	132,640	-	-	-	-	132,640
Foundations, sales and services, and contributions	-	-	-	-	45,852	45,852
Recreation	46,694	-	-	-	-	46,694
Grant proceeds and reimbursements	80,251	-	-	-	-	80,251
Zoning and site plan fees	1,100	-	-	-	-	1,100
Interest and penalties earned	40,765	10,455	6,836	2,129	9,483	69,668
Reimbursements from other funds and local units	-	-	-	113,123	9,661	122,784
Funding for lease	73,214	-	-	-	-	73,214
Refuse and miscellaneous revenue	282,321	-	-	-	-	282,321
Intergovernmental	80,082	-	-	-	-	80,082
TOTAL REVENUES	3,142,910	223,492	85,016	402,626	215,702	4,069,746
Other Financing Sources:						
Transfers from other funds	185,953	-	51,063	120,000	159,200	516,216
TOTAL REVENUES AND OTHER FINANCING SOURCES	3,328,863	223,492	136,079	522,626	374,902	4,585,962
Expenditures:						
Legislative	11,502	-	-	-	-	11,502
General government	553,403	2,675	2,675	787	1,478	561,018
Public safety	1,343,132	-	-	-	-	1,343,132
Public works	816,342	-	-	-	-	816,342
Recreation and cultural	187,120	-	-	-	-	187,120
Highways and streets	-	131,111	115,935	-	-	247,046
Other	233,791	-	-	-	33,950	267,741
Debt service - principal	-	-	-	440,000	160,000	600,000
- interest	11,064	-	-	86,300	28,103	125,467
TOTAL EXPENDITURES	3,156,354	133,786	118,610	527,087	223,531	4,159,368
Other Financing Uses						
Transfers to other funds	100,140	68,563	17,500	-	275,798	462,001
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,256,494	202,349	136,110	527,087	499,329	4,621,369
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	72,369	21,143	(31)	(4,461)	(124,427)	(35,407)
Fund Balance at July 1, 2004	471,784	530,230	364,647	16,768	895,467	2,278,896
FUND BALANCE AT JUNE 30, 2005	\$ 544,153	\$ 551,373	\$ 364,616	\$ 12,307	\$ 771,040	\$ 2,243,489

See accompanying notes.



CITY OF MARINE CITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

June 30, 2005

Total Net Change in Fund Balances - Governmental Funds	\$ (35,407)
--	-------------

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for government activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of net activities. Proceeds from the sale of capital assets are reported as revenue in the governmental funds. For government activities, these proceeds are reduced by the net book value of disposed assets to provide the gain or loss on sale of such assets in the statement of net activities.

Capital outlay	\$ 310,630	
Less: depreciation	(241,895)	68,735

Delinquent personal property taxes receivable and fire contract revenue were not available soon enough after year end to pay the current period expenditures, and therefore, are deferred in the governmental funds 7,043

Repayment of loan principal is an expenditure, and loan proceeds are revenue in the governmental funds. Proceeds increase and repayments decrease liabilities in the statement of net assets and do not affect the statement of activities.

Loan principal payments	549,743
-------------------------	---------

Compensated absences are measured by the amount earned in the statement of activities. In the governmental funds, these items are measured by financial resources used. (22,898)

Interest expenditures are recorded when financial resources are used in the governmental funds. Interest expense is recognized as the interest accrues regardless of when it is due in the statement of activities. 874

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 568,090
--	-------------------



CITY OF MARINE CITY**STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS**

June 30, 2005

		Water Supply and Sewage Disp. System
ASSETS		
Current Assets		
Cash - checking and on hand	\$	268,973
- savings and cash equivalent investments		64,182
Accounts and assessments receivable		360,083
<i>Total Current Assets</i>		<u>693,238</u>
Other Assets		
Capital assets, net of accumulated depreciation		8,866,533
TOTAL ASSETS	\$	<u>9,559,771</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$	65,356
Due to other funds		37,697
Accrued wages and vacation pay		205,220
Accrued interest		5,406
Current portion of long-term debt		55,000
<i>Total Current Liabilities</i>		<u>368,679</u>
Noncurrent Liabilities		
Long-term obligations net of current portion		1,285,000
TOTAL LIABILITIES	\$	<u>1,653,679</u>
NET ASSETS		
Investment in capital assets, net of related debt	\$	7,526,533
Unrestricted		365,293
Restricted		14,266
TOTAL NET ASSETS	\$	<u>7,906,092</u>

See accompanying notes.



CITY OF MARINE CITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - PROPRIETARY FUNDS

For the year ended June 30, 2005

	Water Supply and Sewage Disp. System
Operating Revenues:	
Metered sales	\$ 1,074,106
Sewage treatment contract	23,148
Hydrant rental and city usage	24,000
Water taps and meter sales	8,338
Sewer taps	6,200
Miscellaneous	648
TOTAL OPERATING REVENUES	1,136,440
Operating Expenses:	
Water	792,090
Sewer	880,085
TOTAL OPERATING EXPENSES	1,672,175
NET LOSS FROM OPERATIONS	(535,735)
Nonoperating Revenue (Expense):	
Debt service revenue	93,039
Interest revenue	8,657
Interest expense and agent fees	(46,812)
Transfers from other funds	87,785
Transfers to other funds	(23,197)
TOTAL NONOPERATING REVENUE (EXPENSES)	119,472
CHANGE IN NET ASSETS	(416,263)
Net Assets at July 1, 2004	8,322,355
NET ASSETS AT JUNE 30, 2005	\$ 7,906,092

See accompanying notes.



CITY OF MARINE CITY

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the year ended June 30, 2005

	Water and Sewage Disposal System
Cash Flows From Operating Activities:	
Receipts from customers	\$ 1,162,169
Payments to suppliers	(601,735)
Payments to employees	(588,263)
Receipts from interfund services provided	24,000
Other receipts (payments)	648
Net Cash Used In Operating Activities	(3,181)
Cash Flows From Noncapital Financing Activities:	
Due to other funds	(41,298)
Transfer from other funds	87,785
Transfer to other funds	(23,197)
Net Cash Provided By Noncapital Financing Activities	23,290
Cash Flows From Capital and Related Financing Activities:	
Acquisition of capital assets	(329,975)
Principal paid on revenue bonds	(60,000)
Interest and paying agent fees paid on revenue bonds	(47,124)
Debt service charges	93,039
Net Cash Used In Capital and Related Financing Activities	(344,060)
Cash Flows From Investing Activities:	
Interest on investments	8,657
Net Cash Provided By Investing Activities	8,657
NET DECREASE IN CASH AND CASH EQUIVALENTS	(315,294)
Cash and Cash Equivalents at July 1, 2004	648,449
CASH AND CASH EQUIVALENTS AT JUNE 30, 2005	\$ 333,155
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:	
Operating loss	\$ (535,735)
<i>Adjustments to reconcile operating loss to net cash used in operating activities:</i>	
Depreciation	516,995
<i>Change in assets and liabilities:</i>	
Accounts receivable	50,377
Accounts payable	(26,292)
Accrued wages and vacation	(8,526)
Net Cash Used In Operating Activities	\$ (3,181)

See accompanying notes.



CITY OF MARINE CITY

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2005

	Pension Fund	Retiree Health Trust	Tax Collection Fund	Special Assessment Trust	Police Trust & Agency Fund
ASSETS					
Cash and cash equivalents	\$ --	\$ --	\$ 12,325	\$ 58,991	\$ 174
Investments - at fair value	5,532,804	189,973	--	--	--
Personal property taxes receivable	--	--	385,914	--	--
Special assessment receivable	--	--	--	22,162	--
Due from other funds	300	--	--	1,197	--
TOTAL ASSETS	\$ 5,533,104	\$ 189,973	\$ 398,239	\$ 82,350	\$ 174
LIABILITIES					
Accrued interest	\$ --	\$ --	\$ --	\$ 1,350	\$ --
Accounts payable	300	--	--	--	--
Current portion of debt	--	--	--	4,000	--
Due to other governmental units	--	--	281,325	--	174
Due to other funds	--	--	116,914	--	--
Long-term debt	--	--	--	77,000	--
TOTAL LIABILITIES	\$ 300	\$ --	\$ 398,239	\$ 82,350	\$ 174
NET ASSETS					
<i>Held in Trust</i>	\$ 5,532,804	\$ 189,973			

See accompanying notes.

CITY OF MARINE CITY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the year ended June 30, 2005

	Pension Trust Fund	Retiree Health Trust
ADDITIONS		
Contributions:		
Employer	\$ 161,159	\$ 266,238
Employee	76,328	--
Total Contributions	237,487	266,238
Investment Income:		
Net appreciation in fair value of investments	79,669	--
Interest, dividends, and realized gains	216,857	888
Total Investment Gain	296,526	888
TOTAL ADDITIONS	534,013	267,126
DEDUCTIONS		
Benefits	238,070	76,994
Refunds of contributions	429	--
Administrative expenses	49,270	159
TOTAL DEDUCTIONS	287,769	77,153
NET CHANGE	246,244	189,973
Net Assets at July 1, 2004	5,286,560	--
NET ASSETS AT JUNE 30, 2005	\$ 5,532,804	\$ 189,973

See accompanying notes.



CITY OF MARINE CITY

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable) Final to Actual
Revenues:				
Tax collections	\$ 1,856,980	\$ 1,860,830	\$ 1,832,101	\$ (28,729)
Distributions from State of Michigan	525,000	525,000	515,882	(9,118)
Licenses, permits, fines, and fees	33,000	67,850	57,860	(9,990)
Fire protection fees	129,250	132,650	132,640	(10)
Recreation	37,500	37,500	46,694	9,194
Grant proceeds and reimbursements	50,845	71,325	80,251	8,926
Zoning and site plan fees	800	1,100	1,100	—
Interest and penalties earned	29,100	29,100	40,765	11,665
Funding for capital lease	—	73,214	73,214	—
Refuse and miscellaneous	279,250	294,547	282,321	(12,226)
Intergovernmental - equipment revenue	55,000	75,000	80,082	5,082
TOTAL REVENUES	2,996,725	3,168,116	3,142,910	(25,206)
Other Financing Sources:				
Transfers from other funds	253,575	265,975	185,953	(80,022)
TOTAL REVENUES AND OTHER FINANCING SOURCES	3,250,300	3,434,091	3,328,863	(105,228)
Expenditures:				
Legislative	13,750	13,750	11,502	2,248
General government	555,975	614,655	553,403	61,252
Public safety	1,265,405	1,408,667	1,343,132	65,535
Public works	772,225	891,709	816,342	75,367
Recreation and cultural	206,495	243,420	187,120	56,300
Other	233,725	287,905	233,791	54,114
Debt service - interest	12,875	12,875	11,064	1,811
TOTAL EXPENDITURES	3,060,450	3,472,981	3,156,354	316,627
Other Financing Uses:				
Transfers to other funds	255,065	101,365	100,140	1,225
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,315,515	3,574,346	3,256,494	317,852
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(65,215)	(140,255)	72,369	212,624
Fund Balance at July 1, 2004	471,784	471,784	471,784	—
FUND BALANCE AT JUNE 30, 2005	\$ 406,569	\$ 331,529	\$ 544,153	\$ 212,624

See accompanying notes.



CITY OF MARINE CITY

MAJOR STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor Vehicle Highway Fund	\$ 208,000	\$ 216,000	\$ 213,037	\$ (2,963)
Miscellaneous	3,000	3,000	--	(3,000)
Interest earned	4,000	4,000	10,455	6,455
Bond proceeds	1,000,000	--	--	--
TOTAL REVENUES	1,215,000	223,000	223,492	492
Other Financing Sources:				
Transfers from other funds	1,250,000	--	--	--
TOTAL REVENUES AND OTHER FINANCING SOURCES	2,465,000	223,000	223,492	492
Expenditures:				
General administration	2,675	2,675	2,675	--
Drain storm sewers	7,750	33,750	26,485	7,265
Routine maintenance	2,743,600	97,545	61,419	36,126
Bridge maintenance	9,100	9,100	2,867	6,233
Street sweeping	7,600	7,600	3,883	3,717
Ice and snow control	13,250	30,470	30,248	222
Traffic surface	3,820	4,595	3,152	1,443
Surface maintenance M-29	700	900	719	181
Roadside maintenance M-29	1,300	1,300	--	1,300
Traffic signs M-29	1,500	1,900	554	1,346
General maintenance M-29	2,600	2,600	1,284	1,316
Ice and snow control M-29	1,250	1,250	500	750
TOTAL EXPENDITURES	2,795,145	193,685	133,786	59,899
Other Financing Uses:				
Transfers to other funds	49,000	68,500	68,563	(63)
TOTAL EXPENDITURES AND OTHER FINANCING USES	2,844,145	262,185	202,349	59,836
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(379,145)	(39,185)	21,143	60,328
Fund Balance at July 1, 2004	530,230	530,230	530,230	--
FUND BALANCE AT JUNE 30, 2005	\$ 151,085	\$ 491,045	\$ 551,373	\$ 60,328

See accompanying notes.



CITY OF MARINE CITY

LOCAL STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor				
Vehicle Highway Fund	\$ 74,000	\$ 77,000	\$ 78,180	\$ 1,180
Miscellaneous	2,000	2,000	--	(2,000)
Interest earned	2,500	2,500	6,836	4,336
TOTAL REVENUES	78,500	81,500	85,016	3,516
Other Financing Sources:				
Transfer from Major Street Fund	49,000	51,000	51,063	63
TOTAL REVENUES AND OTHER FINANCING SOURCES	127,500	132,500	136,079	3,579
Expenditures:				
General administrative	2,675	2,675	2,675	--
Drain/storm sewers	7,740	11,900	7,196	4,704
Routine maintenance	63,295	71,395	70,985	410
Street sweeping	10,040	12,100	11,060	1,040
Ice and snow control	15,360	24,970	24,464	506
Traffic service	2,640	4,600	2,230	2,370
TOTAL EXPENDITURES	101,750	127,640	118,610	9,030
Other Financing Uses:				
Transfer to other funds	--	17,500	17,500	--
TOTAL EXPENDITURES AND OTHER FINANCING USES	101,750	145,140	136,110	9,030
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	25,750	(12,640)	(31)	12,609
Fund Balance at July 1, 2004	364,647	364,647	364,647	--
FUND BALANCE AT JUNE 30, 2005	\$ 390,397	\$ 352,007	\$ 364,616	\$ 12,609

See accompanying notes.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF CITY OPERATIONS AND FUND TYPES: The City of Marine City covers an area of four square miles. The City operates under an elected Mayor and Board of six commissioners and provides services to its residents (approximately 4,500) in many areas including law enforcement, fire protection, and sanitation.

REPORTING ENTITY: The financial reporting entity consists of the primary government of the City of Marine City and its discretely presented component units. GASB Statement No. 14, as amended by GASB 39, states that the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria for determining the financial reporting entity are separately elected governing body, legally separate entity, fiscally independent, ability to appoint voting majority of governing body, ability to impose its will, and potential for benefit or burden. Certain other organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization would be reported as a component unit of reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Using this criteria, the following have been determined to be discretely presented component units of the City of Marine City:

T.I.F.A. #1
T.I.F.A. #2

T.I.F.A. #3

During the year ended June 30, 2005, T.I.F.A. #2 contributed \$35,000 and T.I.F.A. #3 contributed \$85,000 to Debt Service in fulfillment of bond obligations.

All of the component units were established to prevent urban deterioration and encourage economic development and activity as well as to encourage neighborhood revitalization and historic preservation.

The financial statements of the City do not include the Building Authority. This entity is inactive and has no assets, liabilities, or fund balance. The City retains its existence for possible future use. Educational services are provided to citizens through local school districts which are separate governmental entities.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and other revenues are recognized in the accounting period when they become measurable and available to finance operations. Properties are assessed as of December 31, and the related property taxes are levied on July 1, and become a lien on the following July 1. These taxes are due on August 31, with a final collection date of February 28, before they are added to the county tax rolls.

Revenues earned and susceptible to accrual are considered available and recognized if received within sixty days after the year end.

The government reports the following major governmental funds:

GENERAL FUND - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, protective services, and other intergovernmental revenues.

MAJOR AND LOCAL STREET FUNDS - The Major Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on major streets. The Local Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on local streets.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1991 UNLIMITED BONDS SERIES A FUND - The 1991 Unlimited Bonds Series A Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This fund is not legally required to adopt a budget, and a budgetary comparison statement has not been presented for the Fund.

The government reports the following major proprietary funds:

ENTERPRISE FUNDS - The Water Supply and Sewage Disposal System Fund reports operations that provide services which are financed by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Additionally, the government reports the following fund type:

PENSION FUND - This fund is an agent for retirement contributions for the City employees.

RETIREE HEALTH TRUST - This fund is an agent for health insurance contributions for the City's employees.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Residual balances between the business-type activities and the governmental activities are reported as "internal balances."

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private sector standards issued after November 30, 1989, for its business-type activities.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS

BANK DEPOSITS AND INVESTMENTS: Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

RECEIVABLES AND PAYABLES: In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of allowance for uncollectible amounts, totaling \$58,073.

INVENTORIES AND PREPAID ITEMS: Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

CAPITAL ASSETS: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Infrastructure assets acquired prior to July 1, 2003, have not been capitalized and are omitted from the Statement of Net Assets.

Assets are depreciated using the straight-line method over the following useful lives:

Office Equipment	3-15 years
Buildings and Additions	15-60 years
Water and Sewer System	20-40 years
Roads and Sidewalks	20 years
Machinery and Equipment	5-10 years
Water and Sewer Plant and Equipment	20 years

CAPITALIZED INTEREST: The City capitalizes interest during the construction phase of proprietary fund assets if financed by revenue bonds. Interest is not capitalized for assets constructed with general obligation debt. There was no interest capitalized for the period.

COMPENSATED ABSENCES: The City accrues the liability for future vacation, sick, and other leave benefits that are attributable to employee services already rendered if this obligation relates to vested obligations, the payment of which is probable and can be reasonably estimated. It is the policy of the City to show unpaid vacation benefits as current, as they are payable within one year.

All vacation and vested sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM OBLIGATIONS: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes	\$116,146	\$ --
Special Assessments	3,508	--
M-29 Contract	4,504	--
	<u>\$124,158</u>	<u>\$ --</u>

FUND EQUITY: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

It is the policy of the City to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets, as amended, of the City for these budgetary funds were adopted to the departmental level and are shown in the supplemental schedules to this statement. Budget amendments require approval from a majority of the City Council. Actual expenditures exceeded those budgeted as follows:

<u>T.I.F.A. #2</u>	
Refund/rebate expenditures	\$26,735
<u>T.I.F.A. #3</u>	
Postage and office expenditures	\$12,092



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2005

NOTE 3: CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are at Michigan banks in the name of the City of Marine City Treasurer. Michigan Act 20 P.A. 1943 allows a city to make various investments with public monies including, but not limited to, the following:

1. Direct bonds and obligations of the U.S., its agencies or instrumentalities
2. Certificates of deposit, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency and located in the State of Michigan
3. Commercial paper - rated within 2 highest rate classifications by at least 2 rating services and matures not later than 270 days
4. U.S. or agency repurchase agreements
5. Mutual funds - investments which local unit can make directly
6. Bankers' acceptances of U.S. banks
7. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The above investment restrictions do not apply to the City's Pension Fund.

The deposits of the City are in accordance with statutory authority.

Deposits and investments are recorded at cost. The carrying amounts are included on the balance sheet as "Cash and Investments."

The City's cash deposits are as follows:

Deposits are reflected on the individual fund balance sheet as follows:

Total government funds	\$2,244,395
Total proprietary funds	333,155
Total fiduciary funds	71,490
Total component units	1,485,453
Less cash on hand	(150)
Total Deposits	<u>\$4,134,343</u>



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 3: CASH AND INVESTMENTS (Continued)

CUSTODIAL CREDIT RISK: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$3,668,765 of the government's bank balance of \$4,168,797 was exposed to custodial credit risk as follows:

<u>Deposits</u>	<u>Insured (FDIC)</u>	<u>Uninsured and Uncollateralized</u>	<u>Carrying Amount</u>	<u>Bank Balance/ Market Value</u>
Demand deposits	\$436,000	\$3,668,615	\$4,070,161	\$4,104,615
Savings and CD's	64,182	--	64,182	64,182
Cash on hand	--	150	150	--
	<u>\$500,182</u>	<u>\$3,668,765</u>	<u>4,134,493</u>	<u>\$4,168,797</u>
<u>Investments</u>				
Mutual funds - nonrisk category			<u>5,738,061</u>	
GRAND TOTAL CASH AND INVESTMENTS			<u>\$9,872,554</u>	
<u>Investments - Nonrisk Categorized</u>				
Mutual funds - Pension Fund			<u>\$5,532,804</u>	<u>\$5,532,804</u>
- Retiree Health Trust			189,973	189,973
- Other funds			15,284	15,284
Total Investments			<u>\$5,738,061</u>	<u>\$5,738,061</u>

During the year, the City invested additional money for the Retiree Health Trust.

Other fund mutual fund investments are limited to those under SEC Rule 2a7 or like investment pools. In accordance with GASB Statement No. 31, these are carried at amortized cost for financial reporting purposes.

NOTE 4: RESTRICTED ASSETS AND INVESTMENTS

Water and Sewer Fund - Restricted Assets:

Per Bond Ordinance 48, as amended by 48A and 57 - cash restricted to pay for asset replacement	\$ 5,000
Per City's designation - cash restricted for sewer construction	<u>9,266</u>
	<u>\$14,266</u>



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2005

NOTE 4: RESTRICTED ASSETS AND INVESTMENTS (Continued)

Pension Fund and Retiree Health Care Trust:

Michigan state statute authorizes a political subdivision to make various investments with assets of public employee retirement systems including, but not limited to, the following:

1. The general account of a life insurer authorized to do business in this state, but the total of the assets invested shall not exceed 50% of the capital and surplus of the insurer.
2. Obligations of the United States or its agencies.
3. Banker's acceptances, commercial accounts, certificates of deposit or depository receipts issued by a bank, trust company, savings and loan association, or a credit union.
4. Commercial paper rated within 3 highest rate classifications by at least 2 rating services and matures not later than 270 days.

The City of Marine City's Pension and Retiree Health Care Trust deposits and investments are in accordance with statutory authority.

The Pension and Retiree Health Care Trust investments are as follows:

<u>Investment</u>	<u>Interest Rate</u>	<u>Amount</u>
Paine Webber Cash Fund	Variable	\$ 243,181
Paine Webber Trust Company	Variable	5,479,596
		<u>\$5,722,777</u>

All of the investments are held in the name of the City's Pension and Retiree Health Care Trust.

NOTE 5: FIXED ASSETS

Governmental Activities Fixed Assets:

A summary of changes in governmental fixed assets follows:

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/05</u>
General Government:				
Equipment and vehicles	\$1,231,818	\$ 3,121	\$ --	\$1,234,939
Buildings	527,978	9,941	--	537,919
Land	1,246,019	--	--	1,246,019
Public Safety:				
Equipment and vehicles	647,054	61,004	--	708,058
Buildings	505,127	--	--	505,127
Capitalized leases	373,348	--	--	373,348
Public Works:				
Equipment and vehicles	211,579	57,590	--	269,169
Buildings	240,322	--	--	240,322
Capitalized leases	--	77,214	--	77,214



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2005

NOTE 5: FIXED ASSETS (Continued)

Governmental Activities Fixed Assets: (Continued)

	Balance 6/30/04	Additions	Disposals	Balance 6/30/05
Recreation:				
Equipment	\$ 217,740	\$ 18,063	\$ --	\$ 235,803
Buildings	226,960	--	--	226,960
Highway and street equipment	674,857	83,697	--	758,554
Cemetery:				
Equipment	30,364	--	--	30,364
Buildings	241,770	--	--	241,770
	6,374,936	310,630	--	6,685,566
Accumulated Depreciation	3,565,165	241,895	--	3,807,060
	<u>\$2,809,771</u>	<u>\$ 68,735</u>	<u>\$ --</u>	<u>\$2,878,506</u>

The above amounts include land with a cost of \$1,246,019 not subject to depreciation.

The assets above include assets acquired through capital leases with a cost of \$450,567 and accumulated depreciation of \$377,209.

Governmental activity depreciation, included on the Statement of Activities, was allocated as follows:

General Government	\$ 17,241
Public Safety	108,669
Public Works	42,216
Recreation	18,822
Highways and Streets	44,087
Cemetery	10,860
Total	<u>\$241,895</u>

A summary of the fixed assets of the Water Supply and Sewage Disposal System follows:

Water Supply and Sewage Disposal System

Water plant, lines, and equipment	\$ 3,666,513
Sewer plant, lines, and equipment	14,406,092
Land	63,174
	18,135,779
Less: Accumulated depreciation	(9,269,246)
NET FIXED ASSETS	<u>\$ 8,866,533</u>

Depreciation for the water and sewer systems totaled \$85,632 and \$431,363, respectively, for the year ended June 30, 2005.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 5: FIXED ASSETS (Continued)

A summary of the fixed assets of the component units follows:

T.I.F.A. #1

Highways and streets	\$10,972
Less: Accumulated depreciation	(274)
NET FIXED ASSETS	<u>\$10,698</u>

NOTE 6: LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Changes in Indebtedness by Type:

	Payable at June 30, 2004	Increase	Decrease	Payable at June 30, 2005
General Obligation:				
General obligation bonds	\$4,945,000	\$ --	\$600,000	\$4,345,000
Fire truck leases	191,408	--	22,957	168,451
Backhoe lease	--	73,214	--	73,214
Accrued sick pay	<u>101,803</u>	<u>--</u>	<u>22,235</u>	<u>79,568</u>
Total General Obligation	5,238,211	73,214	645,192	4,666,233
Revenue Bonds	485,000	--	10,000	475,000
Drinking Water Revolving Fund				
Bonds	915,000	--	50,000	865,000
Special Assessment Bonds	<u>85,000</u>	<u>--</u>	<u>4,000</u>	<u>81,000</u>
Total Indebtedness	<u>\$6,723,211</u>	<u>\$73,214</u>	<u>\$709,192</u>	<u>\$6,087,233</u>

Changes in Indebtedness by Fund:

Total Water and Sewer Fund				
Indebtedness	\$1,400,000	\$ --	\$ 60,000	\$1,340,000
Total Governmental				
Indebtedness	5,238,211	73,214	645,192	4,666,233
Special Assessments	<u>85,000</u>	<u>--</u>	<u>4,000</u>	<u>81,000</u>
Total Indebtedness	<u>\$6,723,211</u>	<u>\$73,214</u>	<u>\$709,192</u>	<u>\$6,087,233</u>

The general obligation bonds and indebtedness are to be financed by revenues of the Debt Service Fund. The installment loan revenue bonds are to be retired by the revenues of the Water and Sewer Fund. The special assessment bonds are to be retired from collection of special assessments.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 6: LONG-TERM DEBT (Continued)

The following is a summary of indebtedness and annual principal and interest requirements:

Summary of Indebtedness:

	<u>Number of Issues</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
General Obligations:				
Public Improvement Bond	1	6.25%	2007	\$ 150,000
1991 Unlimited Tax Bonds - Series A	1	2.00	2013	3,875,000
1991 Unlimited Tax Bonds - Series B	1	7.25	2006	45,000
1992 Unlimited Tax Bonds - Series C	1	2.00	2012	155,000
1992 Limited Tax Wastewater Treatment System Bonds	1	2.00	2011	120,000
Fire truck leases (see note below)	1	6.61	2012	168,451
Backhoe lease (see note below)	1	4.80	2010	73,214
Accrued sick pay	N/A	N/A	N/A	79,568
Total General Obligations				<u>\$4,666,233</u>
Special Assessment Bonds	1	5.00	2021	<u>\$ 81,000</u>
Revenue Bonds - Water and Sewer System	1	5.00	2021	<u>\$ 475,000</u>
Drinking Water Revolving Funds Bonds	1	2.50	2019	<u>\$ 865,000</u>

Fire Truck Leases: These leases are capital leases. Interest has been imputed at the rate of 6.61% per annum. These leases have been included in "Summary of Principal and Interest Requirements" below, under General Obligations. Future minimum lease payments are as follows:

<u>Date of Lease</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Payable in Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Imputed Interest</u>	<u>Future Minimum Lease Payments</u>
9/14/98	\$275,975	6.61%	2006	\$ --	\$ --	\$ --
			2007	24,284	9,737	34,021
			2008	25,687	8,333	34,020
			2009	27,172	6,848	34,020
			2010	28,743	5,278	34,021
			2011	30,404	3,616	34,020
			2012	32,161	1,859	34,020
				<u>\$168,451</u>	<u>\$35,671</u>	<u>\$204,122</u>

Annual lease payments of \$34,020 are due each July 1.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 6: LONG-TERM DEBT (Continued)

Backhoe Lease: This lease is a capital lease. Interest has been imputed at the rate of 4.8% per annum. This lease has been included in "Summary of Principal and Interest Requirements" below, under General Obligations. Future minimum lease payments are as follows:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Imputed Interest	Future Minimum Lease Payments
7/10/2004	\$73,214	4.80%	2006	\$13,303	\$ 3,514	\$16,817
			2007	13,941	2,876	16,817
			2008	14,611	2,207	16,818
			2009	15,312	1,505	16,817
			2010	16,047	770	16,817
				<u>\$73,214</u>	<u>\$10,872</u>	<u>\$84,086</u>

Annual lease payments of \$16,817 are due each July 10.

Summary of Principal and Interest Requirements:

	Year Ending June 30				
	2006	2007	2008	2009	2010
General Obligations	\$722,454	\$703,726	\$624,038	\$628,837	\$628,338
Revenue Bonds	24,000	33,500	33,000	32,500	56,375
Drinking Water Revolving Fund Bonds	76,625	75,250	73,875	72,500	76,125
Special Assessment Bonds	<u>7,950</u>	<u>7,750</u>	<u>7,550</u>	<u>7,350</u>	<u>7,150</u>
Total Principal and Interest Requirements	<u>\$831,029</u>	<u>\$820,226</u>	<u>\$738,463</u>	<u>\$741,187</u>	<u>\$767,988</u>
	<u>2011-2015</u>	<u>2016-2020</u>	<u>2021-2025</u>	<u>Total</u>	
General Obligations	\$1,721,040	\$ --	\$ --	\$5,028,433	
Revenue Bonds	255,625	229,875	41,000	705,875	
Drinking Water Revolving Fund Bonds	368,000	292,375	--	1,034,750	
Special Assessment Bonds	<u>37,125</u>	<u>35,251</u>	<u>6,150</u>	<u>116,276</u>	
Total Principal and Interest Requirements	<u>\$2,381,790</u>	<u>\$557,501</u>	<u>\$47,150</u>	<u>\$6,885,334</u>	

Complete details of bonded indebtedness are found on pages 55 through 61.

Debt Margin:

Michigan Compiled Law limits indebtedness incurred by cities to 10% of the total state equalized valuation of the city. For the fiscal year 04/05, the state equalized value of the City of Marine City was \$141,216,345; therefore, the legal debt margin is \$14,121,635.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2005

NOTE 6: LONG-TERM DEBT (Continued)

Component Units - Tax Increment Bonds:

At June 30, 2005, the City had a total of \$355,000 of Tax Increment Bonds, series 2001 outstanding. The City has pledged its full faith and credit in the event the Component Unit Debt Retirement Fund does not pay the principal and interest payments as they come due (see page 61 for complete details).

NOTE 7: INTERFUND/COMPONENT UNIT RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds and component units for goods provided or services rendered. These receivables and payables are classified as "Due from other funds/component units" or "Due to other funds/component units" on the balance sheet. The amounts of interfund/component units receivables and payables are as follows:

<u>Fund/Component Unit</u>	<u>Receivable</u>	<u>Fund/Component Unit</u>	<u>Payable</u>
		Major Street Fund	\$ 8,987
		Local Street Fund	3,749
		Water and Sewer Fund	229
		Tax Fund	98,544
General Fund	<u>\$111,509</u>		<u>\$111,509</u>
Major Street Fund	<u>\$ 20,244</u>	Water and Sewer Fund	<u>\$ 20,244</u>
		Major Street Fund	\$ 16,743
Local Street Fund	<u>\$ 20,469</u>	Water and Sewer Fund	3,726
			<u>\$ 20,469</u>
		Debt Service Fund - 1992	
		Limited Tax Bonds	\$ 816
Debt Service Fund-1991		Water and Sewer Fund	1,525
Unlimited Tax Bonds Series A	<u>\$ 12,850</u>	Tax Fund	10,509
			<u>\$ 12,850</u>
Debt Services Fund -			
Public Improvement Bonds	<u>\$ 6,407</u>	Tax Fund	<u>\$ 6,407</u>
		Water and Sewer Fund	\$ 3,592
Debt Service Fund - 1991		Tax Fund	944
Unlimited Tax Bonds Series B	<u>\$ 4,536</u>		<u>\$ 4,536</u>
		Water and Sewer Fund	\$ 7,184
Debt Service Fund - 1992		Tax Fund	233
Unlimited Tax Bonds Series C	<u>\$ 7,417</u>		<u>\$ 7,417</u>
Debt Service Fund - 1992			
Limited Tax Bonds	<u>\$ 277</u>	Tax Fund	<u>\$ 277</u>
Pension Fund	<u>\$ 300</u>	General Fund	<u>\$ 300</u>
Special Assessment Fund	<u>\$ 1,197</u>	Water and Sewer Fund	<u>\$ 1,197</u>



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 8: FUND BALANCE/RETAINED EARNINGS RESERVATIONS/DESIGNATIONS

Water and Sewer Fund:

Retained Earnings Reserved:

For asset replacement per Bond Ordinance 48, as amended by 48A and 57	\$ 5,000
For sewer construction	<u>9,266</u>
	<u>\$14,266</u>

NOTE 9: RISK FINANCING

The City of Marine City purchases insurance coverage from independent third parties and is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage during the year.

NOTE 10: INTERFUND AND COMPONENT UNIT TRANSFERS

Transfers In

Transfers Out

		Capital Projects	\$ 23,774
		Retiree Health	157,095
		Economic Development Corporation	<u>5,084</u>
General Fund	<u>\$185,953</u>		<u>\$185,953</u>
Local Street Fund	<u>\$ 51,063</u>	Major Street Fund	<u>\$ 51,063</u>
		T.I.F.A. #2	\$ 35,000
1991 Unlimited Tax Bonds - Series A	<u>\$120,000</u>	T.I.F.A. #3	<u>85,000</u>
			<u>\$120,000</u>
		General Fund	\$ 85,730
		Water and Sewer Fund	22,000
		Local Street Fund	17,500
Capital Projects	<u>\$142,730</u>	Major Street Fund	<u>17,500</u>
			<u>\$142,730</u>
		Retiree Health	\$ 2,060
Cemetery Fund	<u>\$ 16,470</u>	General Fund	<u>14,410</u>
			<u>\$ 16,470</u>
Water and Sewer Fund	<u>\$ 87,785</u>	Retiree Health	<u>\$ 87,785</u>
Special Assessment Fund	<u>\$ 1,197</u>	Water and Sewer Fund	<u>\$ 1,197</u>



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 11: LEASES

The City has entered into two leases for copying equipment. Minimum lease payments under these agreements total \$3,176, \$2,883, and \$2,062 each year during the years ended June 30, 2006, 2007, and 2008, respectively. These leases have been treated as operating leases. Lease expense for the period amounted to \$3,176.

NOTE 12: EMPLOYEE RETIREMENT SYSTEM

A. PLAN DESCRIPTION

The City of Marine City Retirement System is a single-employer defined benefit pension plan administered by the City of Marine City. The plan provides retirement benefits to plan members and beneficiaries. The City Council of the City of Marine City has the authority to establish and amend benefit provisions. The City does not issue a stand-alone financial report for this Fund.

Substantially all of the City's employees participate in the City of Marine City Retirement System. The payroll for employees covered by the Retirement System for the year ended June 30, 2005, was approximately \$1,509,000, with payroll for the year totaling approximately \$1,800,000. Membership in the Retirement System as of June 30, 2004 (latest actuarial report available), is comprised of the following:

<u>Group</u>	<u>Employees</u>
Retirees and beneficiaries currently receiving benefits	18
Active employees - fully vested	16
- nonvested	12

Employees attaining the age of 55 who have completed 25 or more continuous years of service or who have attained the age of 60 with 10 or more years of service are entitled to annual benefits of 2.25 percent (2.0 percent prior to 2003) of their final average compensation for each year of continuous service. Benefits are reduced by .005 for each month, or fraction thereof, by which the date of benefit commencement precedes the member's attainment of age 60.

The Retirement System allows early retirement at the completion of 15 years of continuous service. Active employees, with 10 or more years of service, who become disabled, are entitled to the same benefit as if voluntarily retired. Disability benefits are paid until the earlier of death or recovery from disability. If the disabled member becomes gainfully employed, the pension benefit is reduced by the amount so earned.

Retiring members have the option of any of the following benefit payment plans:

1. Level straight life pension
2. Refund of a percentage, up to 100%, of the member's accumulated contributions, excluding interest, on the effective date of retirement
3. 100% survivor pension - member to receive reduced benefit with provision for survivor to receive same benefit for life upon member's death
4. 50% survivor pension - member to receive reduced benefit with provision for survivor to receive ½ of benefit for life upon member's death
5. Social security coordinated - member to receive increased benefit until age 65 and reduced benefit thereafter



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 12: EMPLOYEE RETIREMENT SYSTEM (Continued)

A. PLAN DESCRIPTION (Continued)

In the event that all level straight life or social security coordinated payments terminate before the member's accumulated contributions are paid, the remainder is to be paid to the member's survivor.

If an employee terminates employment with the City and is not eligible for any other benefits under the Retirement System, the employee is entitled to the following:

- If voluntary retirement conditions have not been met - may receive lump sum payment equal to the larger of (1) the actuarial equivalent of the deferred pension, or (2) their accumulated contributions.
- If voluntary retirement conditions have been met - may receive vested benefits at normal retirement age.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

The Pension Fund uses the accrual method of accounting. Contributions from the City and the City's employees are recognized as revenue in the period in which employees provide services to the City. Investment income is recognized as earned by the pension plan. Benefits and refunds are recognized when paid.

Assets are recorded at market for reporting purposes and at market for actuarial valuation.

Investments, other than U.S. Government securities, that represent 5% or more of the plan's assets are as follows:

<u>Investments</u>	<u>% of Plan Assets</u>
Paine Webber Trust Company	99.0%

C. FUNDING POLICY

The contribution requirements of plan members and the City are established and may be amended by the City Council. Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 10.88% of annual covered payroll.

The costs of administering the plan are paid from plan assets.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2005

NOTE 12: EMPLOYEE RETIREMENT SYSTEM (Continued)

D. FUND BALANCE ALLOCATION

	Total Reserved Fund Balance	Fund Balance Reserved For Employee Contribution	Fund Balance Reserved For Employer Contribution	Fund Balance Reserved For Annuities	Unallocated Fund Balance
Balance at July 1, 2003	\$5,286,560	\$1,283,850	\$3,764,482	\$238,228	\$ --
Additions:					
Employee contributions	76,328	76,328	--	--	--
Employer contributions	161,159	--	161,159	--	--
Interest earnings	216,857	--	--	--	216,857
Unrealized gain	79,669	--	--	--	79,669
Total Balance and Add.	5,820,573	1,360,178	3,925,641	238,228	296,526
Trans. (net of ann. purchase)	--	33,210	200,988	13,058	(247,256)
Total Revised Balances	5,820,573	1,393,388	4,126,629	251,286	49,270
Deductions:					
Administration	49,270	--	--	--	49,270
Annuities	238,070	--	238,070	--	--
Employee distributions	429	429	--	--	--
Balance at June 30, 2004	<u>\$5,532,804</u>	<u>\$1,392,959</u>	<u>\$3,888,559</u>	<u>\$251,286</u>	<u>\$ --</u>

At June 30, 2005, \$1,695,546 needs to be transferred from employee and employer reserve to annuity reserve. This allocation will be determined at a later date by the administrator.

E. ANNUAL PENSION COST AND NET PENSION OBLIGATION

The City's annual pension cost for the current year totaled \$161,152, and there was no net pension obligation as of the latest valuation date of June 30, 2004. The annual required contribution for the current year was determined as part of the June 30, 2004, actuarial valuation using an individual entry-age actuarial funding method. The actuarial assumptions included: (a) 7.25% investment rate of return (net of administrative expenses), (b) a long-term inflation rate of 4.5%, (c) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (d) additional projected salary increases ranging from 0.2% to 4.0% per year, depending on age, attributable to seniority/merit, (e) the assumptions that benefits will not increase after retirement, and (f) market value of plan assets at actuarial plan date are used to determine the actuarial value of assets.

There was an unfunded actuarial accrued liability of \$567,894 at June 30, 2004. To remedy this, the City's contribution will increase to 10.90% of valuation payroll for 2005 wages. The actuary feels that this will be sufficient to meet the system's financial objective.

NOTE 13: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

The City matches employee contributions for those employees who elect not to participate in the City's pension plan. Currently, the City is matching contributions for three employees. The City Council approves the matching contribution rate each year.



CITY OF MARINE CITY

NOTES TO FINANCIAL STATEMENTS *(Continued)*

June 30, 2005

NOTE 13: DEFERRED COMPENSATION PLAN (Continued)

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the City that the City has no liability for losses under the plan, but does have the duty of care that would be required of an ordinary prudent investor.

NOTE 14: CONTINGENCIES

The City's landfill has not been operated for several years. As of June 30, 2001, the State of Michigan has agreed to supervise and finance the closure of this landfill. The City will be responsible on an on-going basis for the treatment of leachate generated by the site.

NOTE 15: WORKING CAPITAL

The Water Supply and Sewage Disposal Fund has a working capital balance of \$324,559 at June 30, 2005.

NOTE 16: POSTRETIREMENT BENEFITS

The City has agreed to provide postretirement hospitalization insurance to all of its employees as follows:

The City's obligations for these benefits are established by labor contracts. Currently, under these contracts the City is responsible for 100% of the cost of these benefits.

The City has established the Retirees' Health Insurance Fund, to establish a fund to temporarily set aside funds for this obligation on a voluntary basis. This has been treated as a special revenue fund. Commencing July 1, 2004, the City has established a Retiree Health Trust Fund. The City intends to fund this cost annually, on an actuarially determined basis.

This plan covered 29 members as of the last actuarial report, dated June 30, 2003. The actuarially determined contribution for the year was \$236,460. Actual contributions for the year were \$266,238.

NOTE 17: SUBSEQUENT EVENTS

In August of 2005, it was determined that the City's administrative offices were structurally unsafe for continued use. The City's administrative functions have been temporarily moved to another City owned facility. The ultimate cost to either repair the City's offices or to establish a new permanent facility has not been determined.

In compliance with Department of Environmental Quality requirements, the City has entered into a contract for certain improvements at its water filtration facility. The cost of these improvements are expected to total approximately \$2,500,000. These improvements are funded through the issuance of Limited General Obligation Bonds to be retired through system user fees.



SUPPLEMENTAL INFORMATION



McBride, Manley
& Müller P.C.

CITY OF MARINE CITY

PENSION TRUST FUND REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

(Per latest actuarial report dated June 30, 2004)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets# (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Active Member Covered Payroll (c)	Unfunded AAL as a Percentage of Active Member Covered Payroll ((b - a)/c)
(\$ amounts in thousands)						
06/30/94	\$ **	\$ **	\$ **	** %	\$ **	\$ **
06/30/95	2,790	2,215	(575)	126.0	1,097	--
06/30/96	3,201	2,610	(591)	122.6	1,140	--
06/30/97	3,732	2,850	(882)	130.9	1,264	--
06/30/98	4,299	3,435	(863)	125.2	1,293	--
06/30/99	4,685	3,866	(819)	121.2	1,401	--
06/30/00	4,985	4,167	(818)	119.6	1,342	--
06/30/01	5,286	4,527	(815)	118.2	1,468	--
06/30/02	5,464	4,854	(610)	112.6	1,471	--
06/30/03	5,397	5,901	505	91.4	1,317	38.3
06/30/04*	5,384	5,952	568	90.5	1,370	41.5

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, or unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the system's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Beginning July 1	Actuarial Valuation Date June 30	Annual Required Contribution	Percent Contributed
1994	1993	\$ 81,587	100 %
1995	1994	95,068	100
1996	1995	89,606	100
1997	1996	88,652	100
1998	1997	81,304	100
1999	1998	52,176	100
2000	1999	45,946	100
2001	2000	39,569	100
2002	2001	40,921	100
2003	2002	50,414	100
2004	2003	58,921	100
2005	2004	161,159	100

Market value

** Actuarial information is unavailable for these years.

For required supplementary information see Note 12.

* During the year, the City increased pension benefits by 11.25%.



CITY OF MARINE CITY

**PENSION TRUST FUND
REQUIRED SUPPLEMENTARY INFORMATION
(Continued)**

June 30, 2005
(Per latest actuarial report dated June 30, 2004)

The information presented on the previous page was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Actuarial Cost Method	Individual entry age
Amortization Method	Level percent, open
Remaining Amortization Period	20 years
Asset Valuation Method	Smoothed market value
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	4.7 - 8.5%
Inflation Included in Increase	4.5%



CITY OF MARINE CITY

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2005

Capital Projects Fund											
	Debt Service Funds					Special Revenue Funds				Permanent Fund	
	Capital Improvement	Public Improvement Bonds	1991 Unlimited Tax Bonds Series B	1992 Unlimited Tax Bonds Series C	1992 Limited Tax Bonds	Economic Development Corporation	Retiree Health Fund	Woodlawn Cemetery	Library Fund	Cemetery Perpetual Care	Total Non-Major Funds
Cash	\$ 362,668	\$ 5,715	\$ 3,691	\$ 5,415	\$ 9,449	\$ -	\$ 218,032	\$ 15,018	\$ 16,780	\$ 126,000	\$ 762,768
Due from other funds	-	6,407	4,536	7,417	277	-	-	-	-	-	18,637
TOTAL ASSETS	\$ 362,668	\$ 12,122	\$ 8,227	\$ 12,832	\$ 9,726	\$ -	\$ 218,032	\$ 15,018	\$ 16,780	\$ 126,000	\$ 781,405
LIABILITIES AND FUND BALANCE											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,136	\$ -	\$ -	\$ 1,136
Accrued wages	-	-	-	-	-	-	-	591	-	-	591
Deferred revenue	-	6,378	937	232	275	-	-	-	-	-	7,822
Due to other funds	-	-	-	-	816	-	-	-	-	-	816
TOTAL LIABILITIES	-	6,378	937	232	1,091	-	-	1,727	-	-	10,365
Fund Balance:											
Reserved for debt retirement	-	5,744	7,290	12,600	8,635	-	-	-	-	-	34,269
Reserved for street equipment	35,000	-	-	-	-	-	-	-	-	-	35,000
Unreserved	327,668	-	-	-	-	-	218,032	13,291	16,780	126,000	701,771
TOTAL FUND EQUITY	362,668	5,744	7,290	12,600	8,635	-	218,032	13,291	16,780	126,000	771,040
TOTAL LIABILITIES AND FUND BALANCE	\$ 362,668	\$ 12,122	\$ 8,227	\$ 12,832	\$ 9,726	\$ -	\$ 218,032	\$ 15,018	\$ 16,780	\$ 126,000	\$ 781,405

See accompanying letter.



CITY OF MARINE CITY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2005

	Capital Projects Fund	Debt Service Funds					Special Revenue Funds				Permanent Fund	Total Non-Major Funds
		Public Improvement Bonds	1991 Unlimited Tax Bonds- Series B	1992 Unlimited Tax Bonds- Series C	1992 Limited Tax Bonds	Economic Development Corporation	Retiree Health Fund	Woodlawn Cemetery	Library Fund	Cemetery Perpetual Care		
Revenues:												
Property taxes	\$	89,948	\$ 37,772	\$ 16,149	\$ 59	\$ 75	\$ 6,778	\$	\$	\$	\$	\$ 150,706
Interest income	5,035	622	382	225	207	75	-	210	330	2,397	-	9,483
User fees and other charges	-	-	3,592	7,184	22,090	-	-	12,986	-	-	-	45,852
Reimbursements from other funds and local units	-	-	9,661	-	-	-	-	-	-	-	-	9,661
TOTAL REVENUES	5,035	90,570	51,407	23,558	22,356	75	6,778	13,196	330	2,397	-	215,702
Other Financing Sources:												
Transfers from other funds	142,730	-	-	-	-	-	-	16,470	-	-	-	159,200
TOTAL REVENUES AND OTHER FINANCING SOURCES	147,765	90,570	51,407	23,558	22,356	75	6,778	29,666	330	2,397	-	374,902
Expenditures:												
Current:												
General government	-	-	-	-	-	-	-	-	1,478	-	-	1,478
Miscellaneous	-	621	202	26	113	-	-	-	-	-	-	962
Cemetery operations	-	-	-	-	-	-	-	32,988	-	-	-	32,988
Debt service:												
Principal	-	75,000	45,000	20,000	20,000	-	-	-	-	-	-	160,000
Interest and other charges	-	14,878	6,925	3,500	2,800	-	-	-	-	-	-	28,103
TOTAL EXPENDITURES	-	90,499	52,127	23,526	22,913	-	-	32,988	1,478	-	-	223,531
Other Financing Uses:												
Transfers to other funds	23,774	-	-	-	-	5,084	246,940	-	-	-	-	275,798
TOTAL EXPENDITURES AND OTHER FINANCING USES	23,774	90,499	52,127	23,526	22,913	5,084	246,940	32,988	1,478	-	-	499,329
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	123,991	71	(720)	32	(557)	(5,009)	(240,162)	(3,322)	(1,148)	2,397	-	(124,427)
Fund Balances at July 1, 2004	238,877	5,673	8,010	12,568	9,192	5,009	458,194	16,813	17,928	123,603	-	895,467
FUND BALANCES AT JUNE 30, 2005	\$ 362,668	\$ 5,744	\$ 7,290	\$ 12,600	\$ 8,635	\$ -	\$ 218,032	\$ 13,291	\$ 16,780	\$ 126,000	\$ -	\$ 771,040

See accompanying letter.

SUPPLEMENTAL SCHEDULES

CITY OF MARINE CITY

**OTHER GOVERNMENTAL FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance				
	Original	Final		Favorable (Unfavorable) Final to Actual				
ECONOMIC DEVELOPMENT CORPORATION								
Revenues:								
Interest and penalties earned	\$	—	\$	75	\$	75	\$	—
TOTAL REVENUES		—		75		75		—
Other Financing Uses:								
Transfers to other funds		5,000		5,085		5,084		(1)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES		(5,000)		(5,010)		(5,009)		1
Fund Balance at July 1, 2004		5,009		5,009		5,009		—
FUND BALANCE AT JUNE 30, 2005	\$	9	\$	(1)	\$	—	\$	1
RETIREE HEALTH CARE								
Revenues:								
Interest and penalties earned	\$	2,000	\$	2,000	\$	6,778	\$	4,778
TOTAL REVENUES		2,000		2,000		6,778		4,778
Other Financing Uses:								
Transfers to other funds		247,450		272,040		246,940		25,100
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES		(245,450)		(270,040)		(240,162)		29,878
Fund Balance at July 1, 2004		458,194		458,194		458,194		—
FUND BALANCE AT JUNE 30, 2005	\$	212,744	\$	188,154	\$	218,032	\$	29,878



CITY OF MARINE CITY

OTHER GOVERNMENTAL FUNDS SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL (Continued)

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
WOODLAWN CEMETERY				
Revenues:				
Interest and penalties earned	\$ 200	\$ 200	\$ 210	\$ 10
User fees and other charges	14,300	14,300	12,986	(1,314)
TOTAL REVENUES	14,500	14,500	13,196	(1,304)
Other Financing Sources:				
Transfers from other funds	14,410	16,450	16,470	20
TOTAL REVENUES AND OTHER FINANCING SOURCES	28,910	30,950	29,666	(1,284)
Expenditures:				
Cemetery operations	28,910	37,170	32,988	4,182
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	--	(6,220)	(3,322)	2,898
Fund Balance at July 1, 2004	16,613	16,613	16,613	--
FUND BALANCE AT JUNE 30, 2005	\$ 16,613	\$ 10,393	\$ 13,291	\$ 2,898

CEMETERY PERPETUAL CARE

Revenues:				
Interest and penalties earned	\$ 1,250	\$ 1,250	\$ 2,397	\$ 1,147
TOTAL REVENUES	1,250	1,250	2,397	1,147
Fund Balance at July 1, 2004	123,603	123,603	123,603	--
FUND BALANCE AT JUNE 30, 2005	\$ 124,853	\$ 124,853	\$ 126,000	\$ 1,147

LIBRARY FUND

Revenues:				
Property taxes	\$ 200	\$ 200	\$ 330	\$ 130
TOTAL REVENUES	200	200	330	130
Expenditures:				
Capital outlay	--	1,550	1,478	72
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	200	(1,350)	(1,148)	202
Fund Balance at July 1, 2004	17,928	17,928	17,928	--
FUND BALANCE AT JUNE 30, 2005	\$ 18,128	\$ 16,578	\$ 16,780	\$ 202

See accompanying letter.



CITY OF MARINE CITY

COMPONENT UNITS

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
T.I.F.A. #1			
Revenues:			
Property taxes	\$ 57,700	\$ 57,623	\$ (77)
Interest	800	4,105	3,305
TOTAL REVENUES	58,500	61,728	3,228
Expenditures:			
Salaries	1,350	--	1,350
Payroll taxes	125	--	125
Retirement	150	--	150
Postage and supplies	1,505	62	1,443
Contractual	4,500	3,652	848
Miscellaneous	--	9,744	(9,744)
Advertising	1,025	1,007	18
Capital outlay	44,000	--	44,000
Principal payment on bonds	20,000	20,000	--
Interest and agent fees	17,355	17,355	--
TOTAL EXPENDITURES	90,010	51,820	38,190
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (31,510)	\$ 9,908	\$ 41,418
T.I.F.A. #2			
Revenues:			
Property taxes	\$ 93,600	\$ 95,782	\$ 2,182
Interest	2,400	6,424	4,024
TOTAL REVENUES	96,000	102,206	6,206
Expenditures:			
Professional service	8,000	6,979	1,021
Postage	15	10	5
Advertising	155	152	3
Refund/rebate	--	26,735	(26,735)
Capital outlay	11,000	10,972	28
Other Financing Uses - Transfer to other funds	35,000	35,000	--
TOTAL EXPENDITURES AND OTHER FINANCING USES	54,170	79,848	(25,678)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 41,830	\$ 22,358	\$ (19,472)
T.I.F.A. #3			
Revenues:			
Property taxes	\$ 262,900	\$ 274,047	\$ 11,147
Interest	5,000	15,243	10,243
TOTAL REVENUES	267,900	289,290	21,390
Expenditures:			
Postage and miscellaneous	100	12,192	(12,092)
Advertising	825	655	170
Professional service	8,000	7,047	953
Other Financing Uses - Transfer to other funds	85,000	85,000	--
TOTAL EXPENDITURES AND OTHER FINANCING USES	93,925	104,894	(10,969)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 173,975	\$ 184,396	\$ 10,421

See accompanying letter.



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF REVENUES**

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
Tax Collections	\$ 1,860,830	\$ 1,832,101	\$ (28,729)
Distributions From State of Michigan:			
Sales tax	521,000	512,318	(8,682)
Liquor license fees	4,000	3,564	(436)
	<u>525,000</u>	<u>515,882</u>	<u>(9,118)</u>
Licenses, Permits, Fines, and Fees:			
Traffic violation fines	29,000	28,710	(290)
Permits and licenses	38,850	29,150	(9,700)
	<u>67,850</u>	<u>57,860</u>	<u>(9,990)</u>
Other Revenues:			
Fire protection fees	132,650	132,640	(10)
Recreation	37,500	46,694	9,194
Grants and reimbursements	71,325	80,251	8,926
Zoning and site plan fees	1,100	1,100	—
Interest and penalties earned	29,100	40,765	11,665
Franchise fees	20,500	18,123	(2,377)
Miscellaneous	49,297	43,907	(5,390)
Intergovernmental - equipment rental	75,000	80,082	5,082
Sale of assets	4,000	—	(4,000)
Weed cutting services	1,200	525	(675)
Charge for services	8,700	10,821	2,121
Funding for capital leases	73,214	73,214	—
Cellular tower lease	7,000	7,000	—
Refuse	203,850	201,945	(1,905)
	<u>714,436</u>	<u>737,067</u>	<u>22,631</u>
TOTAL REVENUES	3,168,116	3,142,910	(25,206)
Other Financing Sources:			
Transfers from other funds	265,975	185,953	(80,022)
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 3,434,091	\$ 3,328,863	\$ (105,228)

See accompanying letter.



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF EXPENDITURES**

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
LEGISLATIVE			
City Commission:			
Salaries	\$ 6,000	\$ 5,867	\$ 133
Payroll taxes and benefits	460	449	11
Supplies and publications	300	210	90
Training and tuition	400	--	400
Dues and memberships	3,725	3,643	82
Travel and meals	1,165	--	1,165
Community promotion	1,700	1,333	367
TOTAL LEGISLATIVE	\$ 13,750	\$ 11,502	\$ 2,248
GENERAL GOVERNMENT			
City Manager:			
Salary	\$ 48,190	\$ 47,740	\$ 450
Payroll taxes and benefits	27,955	27,646	309
Retiree health	7,800	7,799	1
Supplies and publications	1,645	1,368	277
Telephone	2,000	1,116	884
Travel and meals	1,540	1,246	294
Training	750	306	444
Equipment maintenance	100	38	62
Capital outlay	1,425	1,413	12
	<u>91,405</u>	<u>88,672</u>	<u>2,733</u>
Assessor:			
Supplies and publications	2,160	1,618	542
Repairs and maintenance	450	143	307
Contractual	27,900	27,350	550
Telephone	750	573	177
Advertising	450	445	5
	<u>31,710</u>	<u>30,129</u>	<u>1,581</u>
Legal and Professional:			
Contractual	<u>123,000</u>	<u>114,129</u>	<u>8,871</u>

See accompanying letter.



CITY OF MARINE CITY

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
GENERAL GOVERNMENT (Continued)			
City Clerk:			
Salaries	\$ 27,380	\$ 27,332	\$ 48
Payroll taxes and benefits	14,860	14,466	394
Retirement	2,600	2,565	35
Retiree health	3,840	3,838	2
Supplies and publications	8,155	6,666	1,489
Contractual	240	240	--
Dues, memberships, and fees	250	214	36
Telephone	1,500	1,324	176
Travel and meals	1,800	1,465	335
Advertising	7,500	6,204	1,296
Training and tuition	540	240	300
Equipment maintenance	450	446	4
	<u>69,115</u>	<u>65,000</u>	<u>4,115</u>
Boards and Commissions:			
Salaries	1,100	810	290
Supplies and publications	1,275	991	284
Contractual	29,000	26,915	2,085
Travel and meals	150	--	150
Advertising	600	593	7
Training and tuition	200	--	200
	<u>32,325</u>	<u>29,309</u>	<u>3,016</u>
City Treasurer:			
Salaries	48,700	46,172	2,528
Payroll taxes and benefits	47,250	40,280	6,970
Retirement	5,400	5,064	336
Retiree health	7,775	7,486	289
Physical exams	60	59	1
Supplies and publications	6,715	5,901	814
Repairs and maintenance	550	419	131
Contractual	3,400	3,397	3
Dues and memberships	375	325	50
Service charges	400	171	229
Telephone	1,000	1,008	(8)
Travel and meals	1,175	543	632
Training and tuition	900	350	550
Capital outlay	1,725	1,707	18
	<u>125,425</u>	<u>112,882</u>	<u>12,543</u>

See accompanying letter.



CITY OF MARINE CITY

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
GENERAL GOVERNMENT (Continued)			
Buildings and Grounds:			
Salaries	\$ 19,860	\$ 18,815	\$ 1,045
Payroll taxes and benefits	1,525	1,439	86
Retirement	1,950	1,865	85
Retiree health	3,000	2,730	270
Supplies and publications	2,500	1,939	561
Repairs and maintenance	6,625	3,380	3,245
Contractual	31,225	31,216	9
Capital outlay	31,790	9,941	21,849
Utilities	29,700	29,112	588
Equipment rental	7,450	7,450	--
	<u>135,625</u>	<u>107,887</u>	<u>27,738</u>
Watershed Council:			
Publications	350	346	4
Supplies	60	57	3
Professional services	3,640	2,992	648
Permit fees	2,000	2,000	--
	<u>6,050</u>	<u>5,395</u>	<u>655</u>
TOTAL GENERAL GOVERNMENT	\$ 614,655	\$ 553,403	\$ 61,252
PUBLIC SAFETY			
Police:			
Salaries	\$ 556,955	\$ 540,536	\$ 16,419
Payroll taxes and benefits	161,775	160,151	1,624
Retirement	60,225	59,237	988
Retiree health	88,475	88,451	24
Physical exams	600	57	543
Supplies and publications	7,750	6,932	818
Fuel	10,000	9,557	443
Ammunition	3,650	1,879	1,771
Clothing	6,000	3,980	2,020
Laundry	850	844	6
Household and miscellaneous	700	227	473
Repairs and maintenance	16,715	15,115	1,600
Professional and contractual	37,000	35,495	1,505
Service and witness fees	250	190	60
Dues and memberships	250	190	60
Telephone	11,500	9,735	1,765
Travel and meals	1,280	647	633
Equipment rental	2,300	2,288	12
Advertising	100	--	100
Training and tuition	6,000	4,399	1,601
Capital outlay	14,245	13,453	792
	<u>986,620</u>	<u>953,363</u>	<u>33,257</u>

See accompanying letter.



CITY OF MARINE CITY

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
PUBLIC SAFETY (Continued)			
Fire:			
Salaries	\$ 135,700	\$ 128,304	\$ 7,396
Payroll taxes and benefits	26,170	23,033	3,137
Retirement	5,050	5,004	46
Retiree health	7,525	7,501	24
Physical exams	1,800	1,700	100
Supplies and publications	6,202	5,078	1,124
Fuel	2,805	2,503	302
Clothing	11,100	10,290	810
Repairs and maintenance	19,475	17,731	1,744
Contractual	4,700	2,294	2,406
Dues and memberships	500	300	200
Telephone	8,400	8,284	116
Travel and meals	445	420	25
Community promotion	600	490	110
Advertising	100	99	1
Utilities	11,900	10,690	1,210
Miscellaneous	953	953	--
Training and tuition	4,800	4,435	365
Capital outlay	24,875	24,875	--
Non-motorized equipment	23,782	22,676	1,106
Equipment lease	23,900	23,840	60
Hydrant rental	14,000	14,000	--
	<u>334,782</u>	<u>314,500</u>	<u>20,282</u>
Inspections:			
Salaries	35,000	33,815	1,185
Payroll taxes and benefits	14,750	14,556	194
Retirement	3,875	3,679	196
Retiree health	5,700	5,523	177
Physical exams	60	57	3
Supplies and publications	2,810	1,785	1,025
Contractual	19,270	11,836	7,434
Repairs and maintenance	200	106	94
Dues and memberships	350	350	--
Advertising	200	--	200
Telephone	1,300	1,014	286
Travel and meals	2,850	2,198	652
Training and tuition	900	350	550
	<u>87,265</u>	<u>75,269</u>	<u>11,996</u>
TOTAL PUBLIC SAFETY	<u>\$ 1,408,667</u>	<u>\$ 1,343,132</u>	<u>\$ 65,535</u>

See accompanying letter.



CITY OF MARINE CITY**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
PUBLIC WORKS			
General Maintenance:			
Salaries	\$ 233,770	\$ 194,110	\$ 39,660
Payroll taxes and benefits	124,250	115,902	8,348
Retirement	36,000	28,287	7,713
Retiree health	53,625	43,661	9,964
Supplies and publications	7,015	5,242	1,773
Clothing	5,725	5,719	6
Fuel	16,875	15,658	1,217
Repairs and maintenance	21,165	19,138	2,027
Contractual	1,875	1,789	86
Dues, memberships, and service fees	650	599	51
CDL consortium fee	420	420	--
Telephone	4,400	4,358	42
Travel and meals	2,300	1,977	323
Advertising	300	256	44
Utilities	11,275	10,735	540
Equipment rental	1,000	831	169
Capital outlay	89,714	89,389	325
Training and tuition	1,500	615	885
	<u>611,859</u>	<u>538,686</u>	<u>73,173</u>
Street Lighting	<u>76,000</u>	<u>75,721</u>	<u>279</u>
Refuse:			
Contractual	203,850	201,935	1,915
TOTAL PUBLIC WORKS	<u>\$ 891,709</u>	<u>\$ 816,342</u>	<u>\$ 75,367</u>

See accompanying letter.



CITY OF MARINE CITY

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
RECREATION AND CULTURAL			
Recreation:			
Salaries	\$ 47,990	\$ 47,636	\$ 354
Payroll taxes and benefits	3,675	3,644	31
Retirement	1,600	1,569	31
Supplies and publications	5,040	4,427	613
Community promotion	2,500	1,596	904
Contractual	11,770	11,766	4
Dues and memberships	430	370	60
Telephone	1,425	1,169	256
Advertising	30	27	3
Travel and meals	560	506	54
Training and tuition	300	289	11
	<u>75,320</u>	<u>72,999</u>	<u>2,321</u>
Parks and Beach:			
Salaries	63,500	57,199	6,301
Payroll taxes and benefits	4,875	4,376	499
Retirement	3,100	2,366	734
Retiree health	4,700	3,407	1,293
Supplies and publications	5,000	4,506	494
Contractual	5,500	5,240	260
Telephone	450	430	20
Equipment rental	1,200	1,170	30
Utilities	1,100	1,006	94
Repairs and maintenance	4,800	2,128	2,672
Capital outlay	49,000	11,736	37,264
	<u>143,225</u>	<u>93,564</u>	<u>49,661</u>
Safety Program:			
Supplies and publications	425	110	315
Repairs and maintenance	1,000	700	300
Training and tuition	400	--	400
Capital outlay	5,000	4,849	151
Travel and meals	500	33	467
	<u>7,325</u>	<u>5,692</u>	<u>1,633</u>
Library:			
Supplies and publications	750	518	232
Repairs and maintenance	1,400	61	1,339
Contractual	6,850	6,483	367
Equipment lease	800	783	17
Telephone	2,050	1,689	361
Utilities	5,700	5,331	369
	<u>17,550</u>	<u>14,865</u>	<u>2,685</u>
TOTAL RECREATION AND CULTURAL	\$ 243,420	\$ 187,120	\$ 56,300

See accompanying letter.



CITY OF MARINE CITY

**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
OTHER EXPENDITURES			
<i>Insurance:</i>			
Workers' compensation	\$ 16,225	\$ 12,739	\$ 3,486
Liability insurance	91,500	72,117	19,383
	<u>107,725</u>	<u>84,856</u>	<u>22,869</u>
 Compensated Absences	 10,000	 --	 10,000
 Unemployment	 5,000	 1	 4,999
 <i>Special Projects:</i>			
Supplies	11,000	10,888	112
Capital outlay	77,475	72,434	5,041
Contractual	64,675	53,584	11,091
Settlements and property tax	12,030	12,028	2
	<u>165,180</u>	<u>148,934</u>	<u>16,246</u>
TOTAL OTHER EXPENDITURES	\$ 287,905	\$ 233,791	\$ 54,114
 OTHER FINANCING USES			
Transfer to Capital Improvements Fund	\$ 86,955	\$ 85,730	\$ 1,225
Transfer to Cemetery Fund	14,410	14,410	--
TOTAL OTHER FINANCING USES	\$ 101,365	\$ 100,140	\$ 1,225



CITY OF MARINE CITY**WATER AND SEWER FUND
SCHEDULE OF OPERATING EXPENSES**

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
WATER			
General Administrative:			
Salaries	\$ 45,735	\$ 44,637	\$ 1,098
Payroll taxes and benefits	3,525	3,415	110
Retirement	5,000	4,849	151
Supplies and publications	3,125	2,584	541
Workers' compensation	9,400	9,380	20
Retiree health	7,200	7,191	9
Liability insurance	10,460	7,952	2,508
Repairs and maintenance	500	401	99
Contractual	6,200	6,190	10
Equipment lease and miscellaneous	115	112	3
Telephone	450	287	163
	<u>91,710</u>	<u>86,998</u>	<u>4,712</u>
System Maintenance:			
Salaries	37,525	30,297	7,228
Payroll taxes and benefits	2,900	2,292	608
Retirement	4,100	3,286	814
Retiree health	5,900	5,599	301
Supplies	3,745	3,112	633
Contractual	525	525	--
Repairs and maintenance	39,150	16,187	22,963
Dues and memberships	150	93	57
	<u>93,995</u>	<u>61,391</u>	<u>32,604</u>

See accompanying letter.



CITY OF MARINE CITY

**WATER AND SEWER FUND
SCHEDULE OF OPERATING EXPENSES
(Continued)**

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
WATER (Continued)			
Plant Operations:			
Salaries	\$ 304,000	\$ 303,530	\$ 470
Payroll taxes and benefits	97,225	96,533	692
Retirement	32,475	31,545	930
Retiree health	49,800	49,794	6
Supplies and publications	3,075	1,957	1,118
Physical exams	100	--	100
Fuel	750	568	182
Clothing	2,100	1,827	273
Lab supply	7,775	7,773	2
Custodial supply	550	338	212
Treatment supplies	15,000	14,310	690
Public supply and permit fees	1,175	1,108	67
Repairs and maintenance	8,000	7,707	293
Contractual	9,560	8,299	1,261
Dues and memberships	550	540	10
Utilities	24,625	24,118	507
Telephone	4,800	4,779	21
Advertising	850	835	15
Travel and meals expense	1,750	1,095	655
Equipment lease	775	676	99
Training and tuition	1,000	737	263
Depreciation	--	85,632	(85,632)
	565,935	643,701	(77,766)
TOTAL WATER OPERATING EXPENSES	\$ 751,640	\$ 792,090	\$ (40,450)

See accompanying letter.



CITY OF MARINE CITY

**WATER AND SEWER FUND
SCHEDULE OF OPERATING EXPENSES
(Continued)**

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
SEWER			
General Administrative:			
Salaries	\$ 45,745	\$ 44,637	\$ 1,108
Payroll taxes and benefits	3,525	3,415	110
Retirement	5,000	4,849	151
Workers' compensation	4,400	4,398	2
Retiree health	7,200	7,191	9
Supplies and publications	3,100	2,584	516
Repairs and maintenance	500	401	99
Contractual	13,725	12,770	955
Telephone	450	287	163
Liability insurance	8,275	6,278	1,997
Equipment rental and miscellaneous	115	112	3
	<u>92,035</u>	<u>86,922</u>	<u>5,113</u>
System Maintenance:			
Salaries	9,500	6,836	2,664
Payroll taxes and benefits	750	517	233
Retirement	1,050	735	315
Retiree health	1,500	1,059	441
Contractual	1,300	1,297	3
Dues and memberships	150	93	57
Supplies and publications	2,000	640	1,360
Repairs and maintenance	7,700	6,084	1,616
	<u>23,950</u>	<u>17,261</u>	<u>6,689</u>

See accompanying letter.



CITY OF MARINE CITY

WATER AND SEWER FUND SCHEDULE OF OPERATING EXPENSES (Continued)

For the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfav.)
SEWER (Continued)			
Plant Operations:			
Salaries	\$ 152,300	\$ 149,077	\$ 3,223
Payroll taxes and benefits	34,200	33,312	888
Retirement	16,950	15,687	1,263
Retiree health	24,000	23,994	6
Physical exams	100	--	100
Supplies and publications	3,750	1,921	1,829
Fuel	400	287	113
Clothing	1,300	1,221	79
Lab supplies	6,000	2,610	3,390
Treatment supplies	6,000	4,166	1,834
Custodial supplies	150	150	--
Repairs and maintenance	10,775	8,928	1,847
Contractual	25,000	18,531	6,469
Advertising	125	--	125
Landfill and generation charges	4,175	1,291	2,884
Biosolids removal	50,000	17,775	32,225
Telephone	4,200	3,803	397
Dues and memberships	150	--	150
Permit fees	5,500	5,500	--
Service charges	--	1	(1)
Meals and travel	360	86	274
Utilities	49,000	44,163	4,837
Training	450	--	450
Depreciation	--	431,363	(431,363)
	<u>394,885</u>	<u>763,866</u>	<u>(368,981)</u>
Pump/Lift Station:			
Salaries	1,100	723	377
Payroll taxes	100	55	45
Retirement	100	58	42
Retiree health	150	84	66
Supplies	800	--	800
Contractual services	2,475	680	1,795
Telephone	625	605	20
Utilities	8,025	7,956	69
Repairs and maintenance	2,500	1,875	625
	<u>15,875</u>	<u>12,036</u>	<u>3,839</u>
TOTAL SEWER OPERATING EXPENSES	\$ 526,745	\$ 880,085	\$ (353,340)

See accompanying letter.



CITY OF MARINE CITY

SCHEDULE OF INDEBTEDNESS

June 30, 2005

Water Supply and Sewage Disposal System Revenue Bonds - Series III:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
10-2-81	\$ 628,000	5.00%	2006	\$ --	\$ 24,000	\$ 24,000
Principal due July 1			2007	10,000	23,500	33,500
Interest due July 1			2008	10,000	23,000	33,000
and January 1			2009	10,000	22,500	32,500
			2010	35,000	21,375	56,375
			2011	35,000	19,625	54,625
			2012	35,000	17,875	52,875
			2013	35,000	16,125	51,125
			2014	35,000	14,375	49,375
			2015	35,000	12,625	47,625
			2016	35,000	10,875	45,875
			2017	40,000	9,000	49,000
			2018	40,000	7,000	47,000
			2019	40,000	5,000	45,000
			2020	40,000	3,000	43,000
			2021	40,000	1,000	41,000
<i>Total Revenue Bonds</i>				<u>475,000</u>	<u>\$ 230,875</u>	<u>\$ 705,875</u>

See accompanying letter.



CITY OF MARINE CITY

SCHEDULE OF INDEBTEDNESS

(Continued)

June 30, 2005

Drinking Water Revolving Fund Bonds:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
9-29-98	\$ 1,155,000	2.50%	2006	\$ 55,000	\$ 21,625	\$ 76,625
Principal due April 1			2007	55,000	20,250	75,250
Interest due October 1			2008	55,000	18,875	73,875
and April 1			2009	55,000	17,500	72,500
			2010	60,000	16,125	76,125
			2011	60,000	14,625	74,625
			2012	60,000	13,125	73,125
			2013	60,000	11,625	71,625
			2014	65,000	10,125	75,125
			2015	65,000	8,500	73,500
			2016	65,000	6,875	71,875
			2017	70,000	5,250	75,250
			2018	70,000	3,500	73,500
			2019	70,000	1,750	71,750
<i>Total Revolving Bonds</i>				865,000	\$ 169,750	\$ 1,034,750
<i>Total Water and Sewer Fund Bonded Indebtedness</i>				<u>1,340,000</u>		



CITY OF MARINE CITY

SCHEDULE OF INDEBTEDNESS
(Continued)

June 30, 2005

Special Assessment Bonds - 1981:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
10-2-81	\$ 167,000	5.00%	2006	\$ 4,000	\$ 3,950	\$ 7,950
Principal due September 1			2007	4,000	3,750	7,750
Interest due September 1			2008	4,000	3,550	7,550
and March 1			2009	4,000	3,350	7,350
			2010	4,000	3,150	7,150
			2011	5,000	2,925	7,925
			2012	5,000	2,675	7,675
			2013	5,000	2,425	7,425
			2014	5,000	2,175	7,175
			2015	5,000	1,925	6,925
			2016	6,000	1,650	7,650
			2017	6,000	1,350	7,350
			2018	6,000	1,050	7,050
			2019	6,000	751	6,751
			2020	6,000	450	6,450
			2021	6,000	150	6,150
<i>Total Special Assessment Bonded Indebtedness</i>				<u>81,000</u>	<u>\$ 35,276</u>	<u>\$ 116,276</u>



CITY OF MARINE CITY**SCHEDULE OF INDEBTEDNESS***(Continued)*

June 30, 2005

General Obligation Public Improvement Bonds:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
4-1-87	\$ 2,750,000	6.25%	2006	\$ 75,000	\$ 9,375	\$ 84,375
Principal due April 1		6.25	2007	75,000	4,688	79,688
Interest due April 1 and October 1						
Total Issue Outstanding				150,000	\$ 14,063	\$ 164,063

1991 General Obligation Unlimited Tax Bonds - Series A:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
6-27-91	\$ 9,010,000	2.00%	2006	\$ 450,000	\$ 77,500	\$ 527,500
Principal due April 1			2007	460,000	68,500	528,500
Interest due April 1 and October 1			2008	470,000	59,300	529,300
			2009	480,000	49,900	529,900
			2010	490,000	40,300	530,300
			2011	500,000	30,500	530,500
			2012	510,000	20,500	530,500
			2013	515,000	10,300	525,300
Total Issue Outstanding				3,875,000	\$ 356,800	\$ 4,231,800



CITY OF MARINE CITY

SCHEDULE OF INDEBTEDNESS

(Continued)

June 30, 2005

1991 General Obligation Unlimited Tax Bonds - Series B:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
6-1-91	\$ 430,000	7.25%	2006	\$ 45,000	\$ 3,262	\$ 48,262
Principal due April 1						
Interest due April 1 and October 1						
Total Issue Outstanding				45,000	\$ 3,262	\$ 48,262

1992 General Obligation Unlimited Tax Bonds - Series C:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
9-24-92	\$ 760,000	2.00%	2006	\$ 20,000	\$ 3,100	\$ 23,100
Principal due April 1			2007	20,000	2,700	22,700
Interest due April 1 and October 1			2008	20,000	2,300	22,300
			2009	25,000	1,900	26,900
			2010	25,000	1,400	26,400
			2011	25,000	900	25,900
			2012	20,000	400	20,400
Total Issue Outstanding				155,000	\$ 12,700	\$ 167,700



CITY OF MARINE CITY

SCHEDULE OF INDEBTEDNESS

(Continued)

June 30, 2005

1992 Limited Tax General Obligation Wastewater Treatment System Bonds:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
9-24-92	\$ 645,000	2.00%	2006	\$ 20,000	\$ 2,400	\$ 22,400
Principal due April 1			2007	20,000	2,000	22,000
Interest due April 1			2008	20,000	1,600	21,600
and October 1			2009	20,000	1,200	21,200
			2010	20,000	800	20,800
			2011	20,000	400	20,400
Total Issue Outstanding				120,000	\$ 8,400	\$ 128,400

Total Governmental Funds

Bonded Indebtedness

4,345,000



CITY OF MARINE CITY

SCHEDULE OF INDEBTEDNESS

(Continued)

June 30, 2005

Xerox Leases:

<u>Collateral</u>	<u>Monthly Payment</u>	<u>Payments Remaining</u>	<u>Total Payments</u>
Xerox Copier	\$ 206.19	34	\$ 7,010
Xerox Copier	58.49	19	1,111
			<u>8,121</u>

Fire Truck Capitalized Leases:

<u>Date of Lease</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Payable In Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
9-14-98	\$ 275,975	6.61%	2006	\$ --	\$ --	\$ --
Annual payments due each			2007	24,284	9,737	34,021
July 1 in the amount of			2008	25,687	8,333	34,020
\$34,020			2009	27,172	6,848	34,020
			2010	28,743	5,278	34,021
			2011	30,404	3,616	34,020
			2012	32,161	1,859	34,020
				<u>168,451</u>	<u>\$ 35,671</u>	<u>\$ 204,122</u>

Backhoe Loader Capitalized Lease:

<u>Date of Lease</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Payable In Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
7-10-04	\$ 73,214	4.8%	2006	\$ 13,303	\$ 3,514	\$ 16,817
Annual payments due each			2007	13,941	2,876	16,817
July 10 in the amount of			2008	14,611	2,207	16,818
\$16,817			2009	15,312	1,505	16,817
			2010	16,047	770	16,817
				<u>73,214</u>	<u>\$ 10,872</u>	<u>\$ 84,086</u>

Total Leases 249,786

TOTAL INDEBTEDNESS \$ 6,015,786



CITY OF MARINE CITY**COMPONENT UNITS
SCHEDULE OF INDEBTEDNESS**

June 30, 2005

Tax Increment Bonds, Series 2001:

Date of Issue	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
4-1-01	\$ 425,000	3.78%	2006	\$ 20,000	\$ 15,814	\$ 35,814
Principal due October 1		3.90	2007	20,000	15,046	35,046
Interest due October 1		4.03	2008	20,000	14,253	34,253
and April 1		4.14	2009	20,000	13,436	33,436
		4.24	2010	20,000	12,598	32,598
		4.33	2011	25,000	11,633	36,633
		4.42	2012	25,000	10,539	35,539
		4.56	2013	25,000	9,416	34,416
		4.68	2014	25,000	8,261	33,261
		4.78	2015	30,000	6,959	36,959
		4.88	2016	30,000	5,510	35,510
		4.96	2017	30,000	4,035	34,035
		5.03	2018	30,000	2,536	32,536
		5.09	2019	35,000	891	35,891
<i>Total Component Unit Indebtedness</i>				\$ 355,000	\$ 130,927	\$ 485,927

See accompanying letter.





McBride, Manley & Miller P.C.

Certified Public Accountants

GLEN E. MCBRIDE, C.P.A.

PATRICIA A. MANLEY, C.P.A.

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October 20, 2005

Honorable Mayor and City Council
City of Marine City
Marine City, Michigan 48039

Honorable Members:

We have examined the financial statements of the City of Marine City for the year ended June 30, 2005, and have issued our report thereon dated October 20, 2005. Our examination included a study and evaluation of internal control to the extent we considered necessary in order to establish a basis for reliance on the accounting records. As a result of our examination, we offer the following comments and recommendations.

FRAUD PREVENTION

Our review of the City's policies and procedures with regards to fraud prevention indicate a need for a formal policy regarding fraud prevention. This policy should be clearly communicated to all employees, and contain a specific procedure to allow for employee reporting of any suspected fraud.

PERMITS

Permits were used out of sequence for the current year. If permit numbers are skipped or voided, it is necessary to keep a record of these items. Also, it is essential to record information used to calculate fees on permits, so that total fees can be recalculated (such as square footage).

CASH

While performing our audit, we were unable to examine all cancelled checks in the General Pool Account for the month of May. The bank failed to include copies of several cancelled checks, and this represents an internal control risk. Without the cancelled checks, it is impossible to determine if the payee or amount of check agrees to the City's records. It also makes it impossible to determine if the checks were properly authorized with the necessary endorsement and signatures.

CEMETERY TRUST

The City should consider a standing resolution to transfer annual interest revenue from the Cemetery Trust Fund to the Cemetery Fund.

SPECIAL ASSESSMENT BONDS

The City has \$81,000 outstanding debt in the form of special assessment bonds. These bonds bear interest at 5%. When these bonds were issued, the interest earned on the special assessments receivable at 6% more than offset the cost of this debt. However, many of the district's residents have prepaid their assessments. This has resulted in the City's source of revenues to offset this interest expense, at current bank rates, falling short of the related expenses. At June 30, 2005, there was approximately \$61,000 in the Special Assessment Trust to retire these bonds. In order to avoid a fund balance deficit, the Water and Sewer Fund provided a \$1,197 subsidy for the year ending June 30, 2005.

We recommend that the City consider early retirement of these bonds. This could be accomplished by the acquisition of the outstanding special assessment receivables by the General or Water and Sewer Fund at a cost of approximately \$20,000. This, coupled with the existing funds in the Special Assessment Trust would provide sufficient funding for this purpose. The remaining outstanding special assessments would be collected by the General or Water and Sewer Fund to repay the investment, and provide an interest rate return that exceeds rates currently available on its bank deposits.

GASB 34 IMPLEMENTATION ISSUES

For the fiscal year ending June 30, 2004, the City was required to implement the new financial reporting standards as issued by the Governmental Accounting Standards Board pronouncement number thirty-four. The quality of the City's staff, and the general condition of the City's records, made this transition relatively easy. There remain, however, implementation issues that require Council decisions.

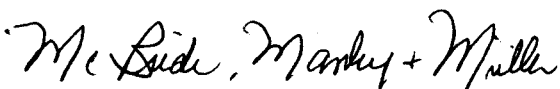
A decision that should be made prior to the year ending June 30, 2006, is the City's intentions with regards to the capitalization of infrastructure assets constructed prior to July 1, 2003. We will discuss this issue in detail with the Council prior to the required decision date.

CONCLUSION

As in the past several years, the City should be commended on the accuracy and completeness of its accounting systems, procedures, and financial reporting.

We would like to thank the City Manager, Treasurer, Clerk, and other City personnel for the cooperation and courtesies extended to us during our audit.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants